

For

Great West Steel Industries Ltd. Annual Report 1977



The Company and its Products and Services

Great West Steel Industries Ltd.

is a Canadian owned manufacturing, engineering and crane rental company providing goods and services primarily to the construction industries of Western Canada and the U.S.A. Pacific Northwest.

The manufacturing plants at New Westminster, Calgary and Saskatoon (and an affiliate plant at Edmonton) engineer, manufacture and install open web steel joists, structural steel and other steel work for the construction industry. A plant at North Vancouver produces extruded hollow core concrete wall and floor slabs.

The crane service division owns a large fleet of mobile cranes operating from bases at Edmonton, Calgary and Vancouver.

A plant at Calgary washes and analyzes coal bulk and core samples for the mining industry.

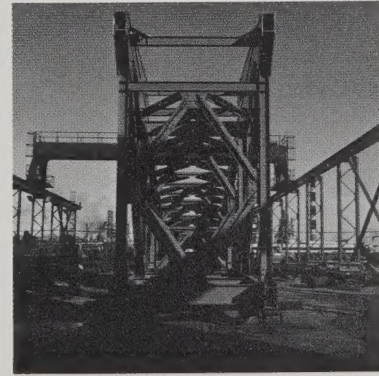
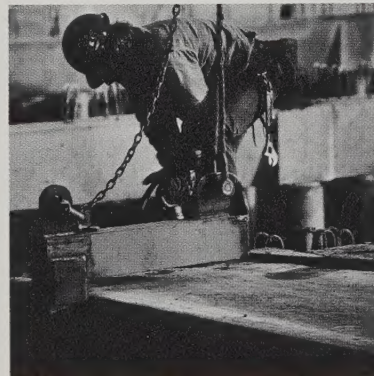
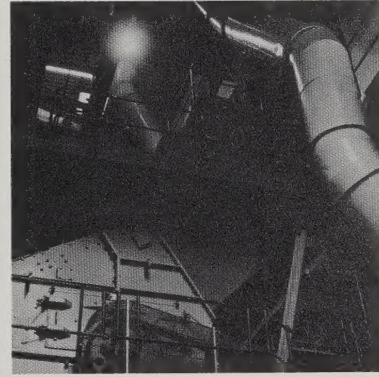
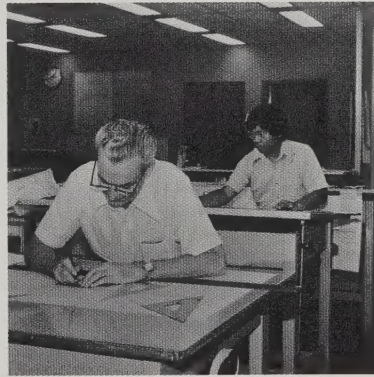
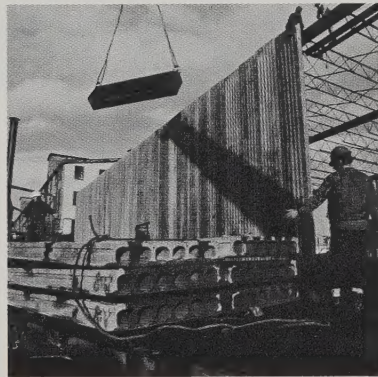
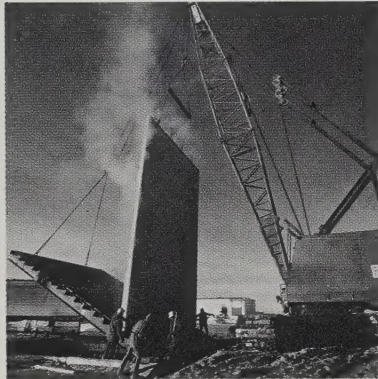
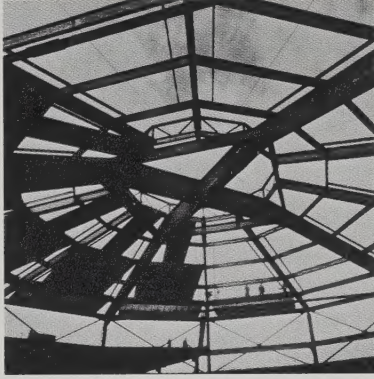
The U.K. based engineering affiliate designs and constructs coal preparation plants, materials handling and bulk sampling systems.

Main Products and Services

*Designers, Engineers
and Manufacturers*

Bucketwheel Excavators,
Stackers, Reclaimers
Bulk Materials Sampling
Equipment
Coal Preparation Plants
Coal Test Washing and Analysis
Crane Service and Pile Driving
Extruded Prestressed Wall and
Floor Slabs
Materials Handling Systems
Minerals Processing Equipment
Plant Maintenance Service
Steel Joists
Steel Plate Work
Structural Steel

Great West Steel Industries Ltd.



The Year in Brief

in thousands of dollars except as indicated

	1977	1976
NET WORKING CAPITAL	2,295	98
NET FIXED ASSETS	5,001	5,241
OTHER ASSETS	8,714	9,018
TOTAL NET ASSETS	<u>16,010</u>	<u>14,357</u>
REPRESENTED BY:		
Funded Debt	11,462	11,192
Shareholders' Equity	<u>4,548</u>	<u>3,165</u>
	<u>16,010</u>	<u>14,357</u>
CAPITAL EXPENDITURES ON FIXED ASSETS	379	1,649
TOTAL PAYROLL AND BENEFITS*	10,857	19,721
NUMBER OF EMPLOYEES AT YEAR END*	417	682
SALES	28,600	48,287
LOSS FROM CONTINUING OPERATIONS††	(462)	(682)
LOSS FROM DISCONTINUED OPERATIONS††	(2,344)	(8,436)
EQUITY EARNINGS FROM INVESTMENTS		532
NET LOSS		
Before Extraordinary Item	(2,806)	(8,586)
After Extraordinary Item	(3,617)	(8,515)
NET LOSS AS % OF SALES		
Before Extraordinary Item	(9.8%)	(17.8%)
After Extraordinary Item	(12.7%)	(17.6%)
NET LOSS PER SHARE**		
Before Extraordinary Item	(\$1.47)	(\$4.51)
After Extraordinary Item	(\$1.90)	(\$4.47)
CASH FLOW PER SHARE**		
Before Extraordinary Item	(66¢)	(\$2.86)
After Extraordinary Item	(\$1.09)	(\$2.82)

††After applicable Income Taxes

*Excluding employees of affiliated companies

**Based on 1,902,495 Common Shares outstanding at December 31, 1977

Report to the Shareholders

1977 was a difficult year for construction related industries in Canada. In spite of this, the continuing operations of the Company made significant progress.

The management of the steel fabricating plants is being substantially strengthened. After several difficult years, the plants appear to be well on the way towards a stable and profitable posture. Our construction and crane services operations continued to perform well in 1977 and look forward to an exciting growth rate. The Birtley Coal and Minerals Testing facility in Calgary maintained strong activity in 1977 and shows every sign of growing rapidly in the future.

Our investments in GWS Krupp Industries Ltd., Edmonton, and GWS and Shell Limited, U.K. continue to maintain their value to the Company. GWS Krupp Industries Ltd. experienced a loss in 1977 because of unsatisfactory results on a large equipment contract completed during the year. An early return to profitability is anticipated. Birtley Engineering Ltd. U.K. (owned by GWS and Shell Limited) continued to grow, although profit taking on large contracts in progress was minimal in 1977.

The Company does not effectively control the daily management of these 50% owned affiliates nor does it derive cash flow directly from them. In addition, continuing to include the reporting of these operations on a line-by-line proportionate consolidation basis as had been the previous policy does not permit the Company to reflect the progress made in the wholly-owned con-

tinuing operations in 1977. Therefore, management has decided to adopt investment accounting.

Management does not want to obscure the fact that this accounting change results in a reduction of the reported loss in 1977 of \$1.2 million, with a corresponding effect on retained earnings. The 50% affiliates are now included as investments, and in management's opinion are recorded at lower than market value.

In 1977, sales of the continuing operations were \$26.5 million, compared to \$28.3 million in 1976. The Company's 50% share of sales of affiliates was \$21.4 million in 1977 compared to \$28.6 million in 1976. This reduction was due to the disposition of one of three 50% owned operations.

The aftermath of the problems of 1976 prevailed throughout 1977 for the Company's discontinued operations. The management team, reorganized in April 1976, continued its efforts to dispose of the assets of the discontinued operations. Further assessment resulted in substantial additional closure costs and write-downs. In 1978, no further operating losses are expected for the discontinued operations, and management's only involvement is in disposing of the remaining assets. It is obvious that this demanding program dominated management activities in 1977.

The sale of the U.S. operations of Birtley Engineering Corporation to Sverdrup & Parcel and Associates Inc. in St. Louis was completed in July 1977. The final

disposition of International Brick & Tile, while not complete has been fully recognized in the losses recorded in discontinued operations.

After exhaustive attempts to attract interest in the coal properties of Pine Pass Development Ltd., management decided to discontinue reporting this deferred expense as an asset and wrote off \$0.8 million.

In December 1977, the Company was shocked when the Government of Abu Dhabi called our Banker's performance guarantee of \$3 million, related to the construction of a hotel in the Middle East. The Company has taken legal action under an indemnity agreement from its Arab partner and the \$3 million paid out by our Banker shows on our balance sheet as a receivable and as an additional loan. Resolution of this disputed action of the Abu Dhabi Government and the collection under the indemnity agreement, plus \$2.4 million of other receivables due from our Arab partner is a major project and could take considerable time.

The costs and efforts related to the discontinued operations dominated 1977. Losses of \$3.2 million from these discontinued operations virtually eliminated the equity base of the Company. Although continuing operations experienced substantial improvement from a loss of \$1.1 million in 1976 to a loss of \$0.4 million in 1977, this had a further negative effect on our balance sheet. Therefore, an infusion of equity capital was urgent. The Toronto Dominion Bank agreed to pur-

REPORT TO THE SHAREHOLDERS

chase \$5 million of Great West Steel Industries Ltd.'s preferred shares and the proceeds were used to reduce the outstanding bank debt. This commitment by the Toronto Dominion Bank enabled management to rationalize the viability of the continuing operations.

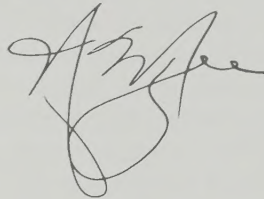
Where do we go from here? Except for the program in the Middle East and the finalization of several insurance claims outstanding, the future costs and losses of the dis-

continued operations have been eliminated. Management now has the opportunity to devote full time to the continuing operations. Key people from within the steel industry are being added to our management team. Plant facilities are being reviewed and upgraded where necessary. Our

banking arrangements include funds for growth and capital expenditures to assure our continuing role as a leader in the industry.

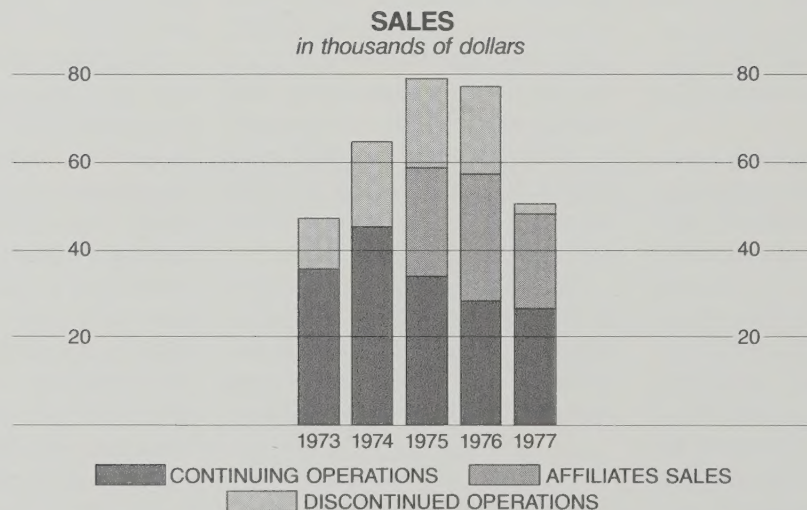
Although the short term prospects for the steel fabricating industry are still bleak, our operations are now on a sound footing and will do well in the future. We have lots of momentum, great people and the continuing operations are now capable of producing sound earnings with rapid growth.

On behalf of the
Board of Directors



HUGH A. MAGEE
Chairman and President

Vancouver, B.C., May 12, 1978.



Chronology to 1977

1965

Edmonton operations commenced to design, fabricate and erect steel joists and structural steel.

1966

Calgary plant acquired to produce fabricated structural steel and air fin heat exchangers.

Saskatoon plant established to manufacture steel joists and fabricate structural steel.

1969

New Westminster plant opened to produce steel joists and fabricate structural steel.

1970

Great West Steel Industries Ltd. became a public company.

1971

Atlas Construction & Crane Service acquired, an operation which is complementary to the erection of steel joists and structural steel.

Calgary coal wash pilot plant and laboratories established, now known as Birtley Coal and Minerals Testing.

Birtley Engineering Ltd., U.K. was purchased with facilities in Chesterfield, England and Glasgow, Scotland.

Toronto steel joist manufacturing facilities were purchased from Anthes Steel Products Ltd.

1972

Seattle sales and engineering office was opened.

Wallclad Products Ltd. was acquired to produce and install steel faced sandwich wall panels.

International Brick & Tile was purchased with the intent to produce ceramic bricks and tile from fly ash.

Taskmaster Division was started to develop computerized engineering data consisting primarily of software programming.

Birtley Engineering Corporation opened offices in Salt Lake City as consulting engineers in resource process design.

1973

Great West Steel Industries Inc. was established in Fontana, California to produce and market steel joists and fabricate structural steel.

Pine Pass Development Ltd. became involved in a coal exploration program under an agreement with Pan Ocean Oil Ltd.

Bimac Engineering & Chemicals Limited, U.K. was formed to produce and market consumable foundry products for the steel industry.

Bimac Division was established in Detroit, Michigan.

1974

Dycore Division of Wallclad was started in North Vancouver for the production of hollow core concrete slabs for the construction industry.

1975

Bates Agencies Ltd. and Super Crane & Rigging Ltd. were acquired to provide crane rental services in B.C.

Swedapal Division U.K. formed to produce innovative steel-wood and steel-plastics pallets.

Acquired 50% of Associated Engineering Services Ltd., a major consulting engineering company in Western Canada.

GWS Krupp Industries Ltd. was formed in Edmonton to acquire from Great West Steel its Edmonton plant and subsequently greatly expanded it. Great West Steel owns fifty percent of this major steel fabricating operation.

Great West Steel acquired fifty percent of GWS and Shell Ltd., which in turn acquired Birtley Engineering Ltd. (U.K.) from Great West Steel.

Great West Steel entered a joint venture with Rashid Construction in the United Arab Emirates to carry out construction activities in the Middle East.

1976

In May, Hugh A. Magee was elected President following major changes in the Board of Directors.

Fontana, California steel fabricating and joist plant closed.

Taskmaster Division sold.

Wallclad metal panel plant sold.

Great West Steel withdrew from active participation in Abu Dhabi hotel project.

Closed Toronto steel operations.

Sold assets of Bimac Chemicals.

Sold Swedapal pallet division.

Reached agreement to sell 50% interest in A.E.S.L.

Consolidated Statement of Earnings and (Deficit)

for the year ended December 31, 1977

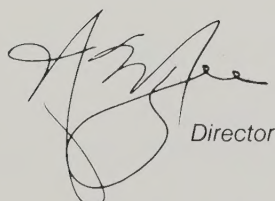
	1977 \$	1976 \$
SALES		
Continuing Operations	26,507,997	28,331,000
Discontinued Operations	<u>2,091,885</u>	<u>19,955,653</u>
	<u>28,599,882</u>	<u>48,286,653</u>
CONTINUING OPERATIONS		
(Loss) from operations	(426,063)	(1,154,592)
Related Income Tax (Provision) Recovery	<u>(35,670)</u>	<u>472,554</u>
(LOSS) FROM CONTINUING OPERATIONS	<u>(461,733)</u>	<u>(682,038)</u>
DISCONTINUED OPERATIONS (Note 1)		
(Loss) from operations including disposal provisions	(479,945)	(10,341,960)
Write-down of assets to estimated realizable values	(1,863,899)	(1,956,684)
Related Income Taxes Recovered	<u> </u>	<u>3,862,644</u>
(LOSS) FROM DISCONTINUED OPERATIONS	<u>(2,343,844)</u>	<u>(8,436,000)</u>
EQUITY EARNINGS FROM INVESTMENTS (Note 4)		531,639
(LOSS) BEFORE EXTRAORDINARY ITEMS	<u>(2,805,577)</u>	<u>(8,586,399)</u>
EXTRAORDINARY ITEMS (Note 10)	<u>(810,760)</u>	<u>70,932</u>
(LOSS) FOR THE YEAR	(3,616,337)	(8,515,467)
(DEFICIT) RETAINED EARNINGS — BEGINNING OF YEAR	(2,361,443)	6,238,350
Tax paid on 1971 undistributed income	<u> </u>	<u>(84,326)</u>
(DEFICIT) — END OF YEAR	<u>(5,977,780)</u>	<u>(2,361,443)</u>

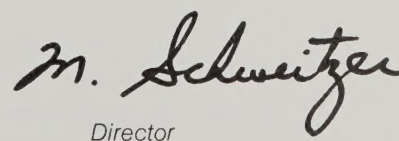
Consolidated Balance Sheet

as at December 31, 1977

Assets	1977 \$	1976 \$
CURRENT		
Accounts Receivable	5,631,534	7,590,698
Inventories (Note 3)	3,260,034	4,234,392
Prepaid Expenses	224,886	289,376
Current Portion of Net Assets Held For Realization (Note 1)	<u>2,189,646</u>	<u>4,328,811</u>
	11,306,100	16,443,277
NET ASSETS OF DISCONTINUED OPERATIONS HELD FOR REALIZATION (Note 1)	5,813,441	5,242,570
INVESTMENTS (Note 4)	2,511,339	2,593,964
EXPLORATION AND TESTING COSTS ON COAL PROPERTIES (Note 10)		776,768
FIXED ASSETS (Note 5)	5,001,180	5,240,655
DEFERRED FINANCING EXPENSES less amortization	276,371	325,145
OTHER ASSETS	<u>113,416</u>	<u>79,794</u>
	<u>25,021,847</u>	<u>30,702,173</u>
Liabilities		
CURRENT		
Bank Advances (Notes 1 and 6)	5,729,033	11,704,912
Accounts Payable and Accruals	3,073,906	4,440,354
Income Taxes	23,337	18,860
Current Portion of Long Term Debt (Note 7)	<u>184,943</u>	<u>181,009</u>
	9,011,219	16,345,135
TERM BANK ADVANCES (Notes 1 and 6)	5,813,441	5,242,570
LONG TERM DEBT (Note 7)	<u>5,648,983</u>	<u>5,949,927</u>
	<u>20,473,643</u>	<u>27,537,632</u>
Shareholders' Equity		
CAPITAL STOCK (Note 8)	10,525,984	5,525,984
(DEFICIT)	<u>(5,977,780)</u>	<u>(2,361,443)</u>
	4,548,204	3,164,541
	<u>25,021,847</u>	<u>30,702,173</u>

Approved by the Directors


 Director


 Director

Consolidated Statement of Changes in Financial Position

for the year ended December 31, 1977

	1977 \$	1976 \$
SOURCE OF WORKING CAPITAL		
Share Capital	5,000,000	
Bank Advances	570,871	
Dividends from Investments	82,625	
Sale of Assets of Discontinued Operations	3,023,186	
Sale of Fixed Assets	97,426	1,043,698
Sale of Other Assets	9,000	490,662
Reclassification of Assets of Discontinued Operations		3,413,627
Long Term Debt		672,000
Extraordinary Items		70,932
	<u>8,783,108</u>	<u>5,690,919</u>
USE OF WORKING CAPITAL		
Continuing Operations	43,592	345,720
Discontinued Operations	1,216,195	8,069,089
Fixed Asset Additions	379,421	1,648,762
Long Term Debt Retired	260,675	640,940
Exploration and Testing Costs on Coal Properties	33,992	87,970
Other Asset Additions	45,000	132,454
Payments Relating to Discontinued Operations in the United Arab Emirates (Note 1)	3,437,299	
Payments Relating to Other Discontinued Operations	1,170,195	
Tax paid on 1971 Undistributed Income		84,326
	<u>6,586,369</u>	<u>11,009,261</u>
INCREASE (DECREASE) IN WORKING CAPITAL	2,196,739	(5,318,342)
WORKING CAPITAL — BEGINNING OF YEAR	<u>98,142</u>	<u>5,416,484</u>
WORKING CAPITAL — END OF YEAR	<u><u>2,294,881</u></u>	<u><u>98,142</u></u>

Notes to Consolidated Financial Statements

for the year ended December 31, 1977

NOTE 1. DISCONTINUED OPERATIONS

During the year the Company continued its program to dispose of certain of its operations that were either historically unprofitable or inconsistent with future plans. Net assets of these discontinued operations held for realization are shown separately on the Balance Sheet and include:

	1977 \$	1976 \$
Accounts Receivable	4,033,839	4,603,410
Account Receivable — United Arab Emirates	5,408,764	2,260,922
Inventories	4,662	858,476
Investment in 50% Owned Affiliate		3,000,000
Fixed and Other	386,423	4,312,815
	9,833,688	15,035,623
Less related liabilities and provisions for expenses and losses	1,830,601	5,464,242
	8,003,087	9,571,381
Less current portion of net assets held for realization	2,189,646	4,328,811
Net assets of discontinued operations held for realization	5,813,441	5,242,570

Full provision for estimated losses has been made for operations already sold or discontinued. Further provisions totalling \$952,000 have been made for estimated expenses and losses during the realization period.

The assets held for realization are recorded at estimated realizable values except for the Account Receivable — United Arab Emirates of \$5,408,764. The collectibility of this account cannot be determined at this time because the financial position of the debtor is unknown. Accordingly the amount is recorded at cost and no allowance has been made for any possible loss. The Company has received court judgements in the United Arab Emirates establishing its claim for this amount and is presently conducting an examination of the debtors' financial ability to pay this obligation.

Under an agreement reached with the Company's bankers, all proceeds from disposal of Net Assets of Discontinued Operations Held for Realization are to be applied against specific bank borrowings arranged for purposes of financing these assets.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES AND PRINCIPLES

Principles of Consolidation

The consolidated financial statements include the accounts of all subsidiaries. The principal subsidiaries, all of which are wholly owned are:

Birtley Engineering (Canada) Ltd.	Pine Pass Development Ltd.
Birtley Engineering Corporation	Super Crane & Rigging Ltd.
Great West Steel Industries Inc.	Wallclad Manufacturing Co. Ltd.
Great West Industries (Alta.) 1976 Ltd.	Wallclad Products Ltd.
Great West Steel Industries (Sask.) Ltd.	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Investments

The Company's investment in 50% owned affiliates is recorded on the cost basis at their carrying values as at December 31, 1976. Dividends from these affiliates are recorded as income when received. However, dividends received by the Company in any period which exceed the Company's share of earnings for such a period are applied against the carrying value of the investment.

Translation of Foreign Currencies

Foreign currencies have been translated into Canadian currency at the rate of exchange in effect on December 31, 1977, except that fixed assets have been translated at the rate in effect at the date of acquisition and earnings at the average rate during the year.

Recording of Income

Profits on contracts are recorded on the basis of estimates of percentage of completion on individual contracts, commencing when progress reaches a point where experience is sufficient to estimate final results with reasonable accuracy.

If contracts extend over one or more fiscal years, revisions in cost and profit estimates during the course of the work are reflected in the accounting period when the facts which require the revisions become known.

At the time a loss on a contract becomes known, the entire amount of the estimated ultimate loss is accrued.

Inventory Valuation

Raw materials and supplies are recorded at the lower of cost and net realizable value. Work-in-progress represents costs and estimated earnings in excess of billings.

Depreciation

Depreciation is calculated at rates which will reduce the original cost of fixed assets to estimated residual values on a straight-line basis at the following rates:

Buildings	2% to 7%
Equipment	5% to 20%

Deferred Financing Expenses

Expenses of obtaining long term financing and conditional sales contracts are deferred and amortized over the term of the financing.

Comparative Figures

Where applicable, comparative figures have been restated to conform with the presentation used in the current year. This restatement has had no effect on the previously reported Loss and Deficit but has resulted in a decrease in working capital of \$5,706,462 for 1976.

NOTE 3. INVENTORIES

	1977 \$	1976 \$
Raw Materials and Supplies	2,038,737	2,845,157
Work-in-Progress	<u>1,221,297</u>	<u>1,389,235</u>
	<u>3,260,034</u>	<u>4,234,392</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4. INVESTMENTS

	1977 \$	1976 \$
Investment in shares of 50% owned affiliates, at cost	2,311,068	2,311,068
Accumulated equity in earnings, for the period from acquisition to December 31, 1976 less dividends received relating to the equity earnings	845,298	927,923
Unrealized gain on sale of assets to affiliate as at December 31, 1976	<u>(645,027)</u>	<u>(645,027)</u>
	<u>2,511,339</u>	<u>2,593,964</u>

The Company has discontinued the policy of including in its consolidated financial statements its proportionate share of the assets, liabilities and results of operations of its 50% owned affiliates. This change in the method of accounting was made because it is now apparent that the Company is not in a position to exert a significant influence over their operations, the distribution of earnings, or the financial decisions of these affiliates. If the Company had followed its previous accounting policy, the reported net loss from continuing operations of \$426,733 would have been increased by \$1,251,000 (\$.66 per common share) with a corresponding decrease in shareholders' equity.

The Company's interest in the assets, liabilities, sales and expenses of 50% owned affiliates is as follows:

	1977 \$	1976 \$
Working Capital	669,000	1,678,000
Fixed Assets and Other	2,411,000	2,099,000
Long Term Debt	(1,373,000)	(900,000)
Deferred Taxes	<u>(364,000)</u>	<u>(283,000)</u>
	<u>1,343,000</u>	<u>2,594,000</u>
Sales	21,382,000	28,641,000
Expenses	<u>22,633,000</u>	<u>28,109,000</u>
(Loss) Earnings for the year	<u>(1,251,000)</u>	<u>532,000</u>

NOTE 5. FIXED ASSETS

	1977		1976	
	Cost \$	Accumulated Depreciation \$	Net Book Value \$	Net Book Value \$
Buildings	1,679,260	321,424	1,357,836	1,304,242
Equipment	6,180,222	2,736,900	3,443,322	3,736,391
	7,859,482	3,058,324	4,801,158	5,040,633
Land	200,022		200,022	200,022
	<u>8,059,504</u>	<u>3,058,324</u>	<u>5,001,180</u>	<u>5,240,655</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6. TERM BANK ADVANCES

Term bank advances are attributable to Net Assets of Discontinued Operations Held for Realization and include:

	1977	1976
	\$	\$
Term bank advances, without specified repayment dates	3,515,000	3,865,000
Other deferred bank loans	<u>2,298,441</u>	<u>1,377,570</u>
	<u>5,813,441</u>	<u>5,242,570</u>

All bank advances are secured by accounts receivable, inventories, floating charges, chattel mortgages on certain equipment and mortgage debentures on real property.

NOTE 7. LONG TERM DEBT

	1977	1976
	\$	\$
1972 Series 8½% Sinking Fund Debentures, due June 15, 1992	5,484,000	5,600,000
Other term loans with interest at varying rates, secured by specific assets repayable in varying annual installments by 1985	<u>349,926</u>	<u>530,936</u>
	5,833,926	6,130,936
Less: Current Portion	<u>184,943</u>	<u>181,009</u>
	<u>5,648,983</u>	<u>5,949,927</u>

At the Company's option, redemption for other than sinking fund purposes of any part of the debentures may take place at a premium of 6% in 1978, decreasing by ½% per year to 1990.

Sinking fund payments for the year amounted to \$116,000.

Payments required in the next five years to meet long term debt installments, including sinking fund payments, are:

	\$
1978	184,943
1979	259,797
1980	233,924
1981	205,262
1982	<u>150,000</u>
	<u>1,033,926</u>

NOTE 8. CAPITAL STOCK AND DIVIDENDS

During the year the Company altered its authorized capital from 5,000,000 common shares without par value to 5,050,000 shares divided as follows:

Authorized — 50,000 cumulative, non voting 7¾% redeemable preference shares of the par value of \$100 each
— 5,000,000 common shares, without nominal or par value.

	1977	1976
	\$	\$
Issued and fully paid — 50,000 preference shares	5,000,000	
— 1,902,495 common shares	<u>5,525,984</u>	<u>5,525,984</u>
	<u>10,525,984</u>	<u>5,525,984</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

During the year the Company issued 50,000 preference shares for \$5,000,000. Dividends on the preference shares accrue and are cumulative from January 1, 1979. The preference shares are redeemable June 30, 1992 at par plus a premium of 8%. The Company has the option to redeem at par at any time prior to March 31, 1982 and at par plus a premium of 1%, increasing 1% per annum after that date, up to and including 1989.

At December 31, 1977, there were outstanding 315,000 common share purchase warrants entitling the holders to purchase common shares at a price of \$9.74 per share, on or before June 15, 1982.

The 1972 Series 8½% sinking fund debentures trust indenture restricts the Company from declaring common stock dividends under certain conditions.

NOTE 9. INCOME TAXES AND TAX LOSSES CARRIED FORWARD

The Company has income tax losses aggregating approximately \$10,500,000 available to reduce future income for tax purposes expiring at various dates up to 1982.

NOTE 10. EXTRAORDINARY ITEMS

	1977 \$	1976 \$
Write-off of exploration and testing costs on coal properties	810,760	
Reduction of income taxes on application of prior period losses		70,932
	<u>810,760</u>	<u>70,932</u>

During the year the Company abandoned its option in certain coal licences in Western Canada. Accordingly, the exploration and testing costs to date have been written off as an extraordinary item.

NOTE 11. (LOSS) PER SHARE

	1977 \$	1976 \$
(Loss) before extraordinary items:		
Continuing operations	(.24)	(.36)
Discontinued operations	(1.23)	(4.43)
Investments		.28
	<u>(1.47)</u>	<u>(4.51)</u>
Extraordinary Items	<u>(.43)</u>	<u>.04</u>
(Loss) per share	<u>(1.90)</u>	<u>(4.47)</u>

NOTE 12. OTHER INFORMATION

a) Remuneration of directors and senior officers amounted to \$488,275 (1976 — \$600,037). Included are salaries and severance allowances of \$94,948 (1976 — \$282,879) to senior executives no longer employed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

b) Selling, general and administrative expenses for the year amounted to:

	1977 \$	1976 \$
Continuing Operations	3,252,000	4,073,000
Discontinued Operations	<u>1,142,000</u>	<u>3,634,000</u>
	<u>4,394,000</u>	<u>7,707,000</u>

c) Other statutory information is as follows:

Depreciation	451,302	850,005
Interest on long term debt	494,562	505,840
Other Interest	295,185	2,092,275

NOTE 13. COMMITMENTS AND CONTINGENT LIABILITIES

The Company has long term lease commitments requiring average annual payments of approximately \$800,000 in each of the next five years.

Guarantees totalling \$6,000,000 have been given to the bankers and bonding companies of the Company's 50% owned affiliates.

Federal Sales Tax assessments totalling \$450,000 have been received relating to 1974. The Company together with other members of the Steel Industry is disputing these assessments.

NOTE 14. LITIGATION

Actions claiming \$7,250,000 were commenced against six defendants including the Company for the loss of use and repair and reconstruction of a building following a construction collapse in January 1977. The Company disclaims any liability and no provision has been made in the financial statements.

Unrelated other actions for approximately \$500,000 have been instituted against the Company. Counter claims have been issued in excess of this amount and the Company also has related indemnity from third parties covering a major portion of the amounts claimed.

NOTE 15. ANTI-INFLATION LEGISLATION

The Company is subject to restraint of profit margins, prices, dividends and compensation under the terms of the Anti-Inflation Act and Regulations. The Company has complied with the legislation in all material respects.

Auditors' Report

TO THE SHAREHOLDERS OF GREAT WEST STEEL INDUSTRIES LTD.

We have examined the consolidated balance sheet of Great West Steel Industries Ltd. as at December 31, 1977 and the consolidated statements of earnings and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

As explained in Note 1 to the consolidated financial statements, the Company continued its program of divestiture of cer-

tain of its divisions, subsidiaries and affiliates initiated during 1976. The assets of discontinued operations are carried in the financial statements at estimated net realizable values and provisions have been made for estimated expenses and losses during the realization period. We have reviewed the procedures followed and documentation prepared by management in determining these estimates, but the ultimate net realizable values and actual expenses and losses cannot yet be determined with certainty since they depend upon future events and other factors which are not presently determinable.

In our opinion, subject to the outcome of the matters discussed above, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles which, except for the method of accounting for investments in 50% owned companies referred to in Note 4 to the consolidated financial statements, have been applied on a basis consistent with that of the preceding year.

COOPERS & LYBRAND
Chartered Accountants

Vancouver, B.C. May 8, 1978

Historical Review

in thousands of dollars except as indicated

FINANCIAL POSITION AT YEAR END	1977	1976	1975	1974	1973
Net Working Capital†	\$ 2,295	\$ 98	\$ 7,452	\$ 8,861	\$ 5,934
Net Fixed Assets	5,001	5,241	10,285	11,020	10,891
Other Assets	8,714	9,018	3,312	606	792
Funded Debt	11,462	11,192	9,849	8,551	9,296
Deferred Income Taxes	—	—	3,449	3,811	2,244
Minority Interest	—	—	—	—	49
Shareholders' Equity	4,548	3,165	7,751	8,125	6,028
CAPITAL EXPENDITURES ON FIXED ASSETS	379	1,649	1,644	1,041	2,703
EMPLOYMENT					
Total Number of Employees*	417	682	1,207	1,463	1,431
Total Payroll & Benefits*	10,857	19,721	17,574	19,400	16,220
INCOME AND RELATED DATA					
Sales	28,600	48,287	53,871	64,285	46,857
Earnings (Loss) from Continuing Operations	(426)	(1,155)	3,404	4,581	200
Earnings (Loss) from Discontinued Operations	(2,343)	(12,298)	(1,926)	—	—
Equity Earnings from Investments	—	532	780	—	—
Earnings before Income Taxes	(2,769)	(12,921)	2,258	4,581	200
Income Taxes	37	(4,335)	831	2,281	394
Earnings for Year	(2,806)	(8,586)	1,427	2,300	(194)
Extraordinary Item	(811)	71	764	(203)	(188)
Net Earnings (Loss)	(3,617)	(8,515)	2,191	2,097	(382)
Depreciation and Amortization	451	850	750	753	402
Interest on Long Term Debt	495	506	968	982	836
Other Interest	295	2,092	922	1,162	505
Earnings (Loss) as % of Sales					
Continuing Operations	(1.6)	(1.4)	3.4	3.6	(.4)
Discontinued Operations	(8.2)	(17.5)	(2.2)	—	—
Equity Earnings from Investments	—	1.1	1.4	—	—
Before Extraordinary Item	(9.8)	(17.8)	2.6	3.6	(.4)
After Extraordinary Item	(12.7)	(17.6)	4.0	3.3	(.8)
Earnings (Loss) per Share**					
Continuing Operations	(24¢)	(36¢)	\$1.02	\$1.35	(1¢)
Discontinued Operations	(\$1.23)	(\$4.43)	(66¢)	—	—
Equity Earnings from Investments	—	28¢	43¢	—	—
Before Extraordinary Item	(\$1.47)	(\$4.51)	79¢	\$1.35	(1¢)
After Extraordinary Item	(\$1.90)	(\$4.47)	\$1.22	\$1.23	(2¢)
Cash Flow per Share**†					
Continuing Operations	(2¢)	59¢	\$1.26	\$2.77	40¢
Discontinued Operations	(64¢)	(\$3.73)	(49¢)	—	—
Equity Earnings from Investments	—	28¢	43¢	—	—
Before Extraordinary Item	(66¢)	(\$2.86)	\$1.20	\$2.77	40¢
After Extraordinary Item	(\$1.09)	(\$2.82)	\$1.66	\$2.65	30¢

†Including current portion of Deferred Income Taxes

*Excluding employees of affiliated companies

**Based on 1,902,495 Common Shares outstanding at December 31, 1977 (1975 - 1,802,495; 1974 and prior - 1,702,495)

Great West Steel Industries Ltd.

DIRECTORS

J. Leslie Bodie, Bermuda
Bryan A. Ellis, Vancouver
Dietrich Fischer, West Germany
A. John Fisher, Toronto
George C. Hambleton, U.S.A.
David L. Helliwell, Vancouver
Hugh A. Magee, Vancouver
John W. Poole, Vancouver
Mervyn G. Schweitzer, Vancouver
C. R. Mallory Smith, Vancouver

OFFICERS

Hugh A. Magee, *Chairman & President*
Mervyn G. Schweitzer, *Executive Vice-President*
George B. Bogdanow, *Vice-President*
D. Scott Kennedy, *Vice-President*
Thomas M. Pytel, *Vice-President*
William E. Allen, *Secretary*

SUBSIDIARIES

Atlas Construction & Crane Service Ltd.,
Edmonton and Calgary
Bates Agencies Limited, Burnaby
Birtley Engineering (Canada) Ltd., Calgary
Birtley Engineering Corporation,
Salt Lake City
Great West Industries (Alta.) 1976 Ltd.,
Edmonton, Calgary and
New Westminster
Great West Steel Industries (Alta.) Ltd.,
Edmonton
Great West Steel Industries (Sask.) Ltd.,
Saskatoon
Great West Steel Industries Inc., Seattle
Multiform Consultants Ltd., Vancouver
Pine Pass Development Ltd., Vancouver
Super Crane & Rigging Ltd., Burnaby
Wallclad Manufacturing Co. Ltd.,
North Vancouver
Wallclad Products Ltd., Vancouver

AFFILIATES

GWS Krupp Industries Ltd., Edmonton
GWS and Shell Limited, U.K.

EXECUTIVE OFFICES

1060-One Bentall Centre,
Vancouver, B.C.

REGISTERED OFFICE

1800-700 West Georgia Street,
Vancouver, B.C.

STOCK LISTINGS

Toronto, Montreal and Vancouver
Stock Exchanges

BANKERS

The Toronto-Dominion Bank

AUDITORS

Coopers & Lybrand,
Chartered Accountants

TRANSFER AGENTS & REGISTRARS

For common shares, preference shares and
share purchase warrants:

The Canada Trust Company, Vancouver,
Toronto, Edmonton, Regina,
Winnipeg, Montreal

For debentures:

The Royal Trust Company,
Vancouver, Edmonton, Toronto,
Montreal

